

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 7, 2018

Volume 11 Issue 236

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- 2 unfilled gaps down like we have seen the last 2 days have often been followed by a bounce.
- The big reversal above the open, but still closing down on the day suggests a short-term upside edge for SPY.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. Evidence is stronger tonight. And reward/risk appears favorable. I like the odds for the bulls over the next few days.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
December 7, 2018	Close > 1% above open but down on day	1-2 days	Bullish			
December 7, 2018	Unfilled gap dn 2 days < 200ma	1-5 days	Bullish			
December 6, 2018	Up Vol % Rank < 2%. SPX > 10-low < 200	1-2 days	Bullish			
Active - Long Term						
November 8, 2018	FTD with strong breadth & 20-day high	int term	Bullish			
November 1, 2018	Best 6 Month During Pres Yr 3	1-6 months	Bullish	17.70%	-3.10%	-7.20%
October 1, 2018	Quantitative Tightening \$50billion/mo	int term	Bearish			
January 8, 2018	1st 4 days of year close higher	1-250 days	Bullish	15.90%	-5.70%	-11.10%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

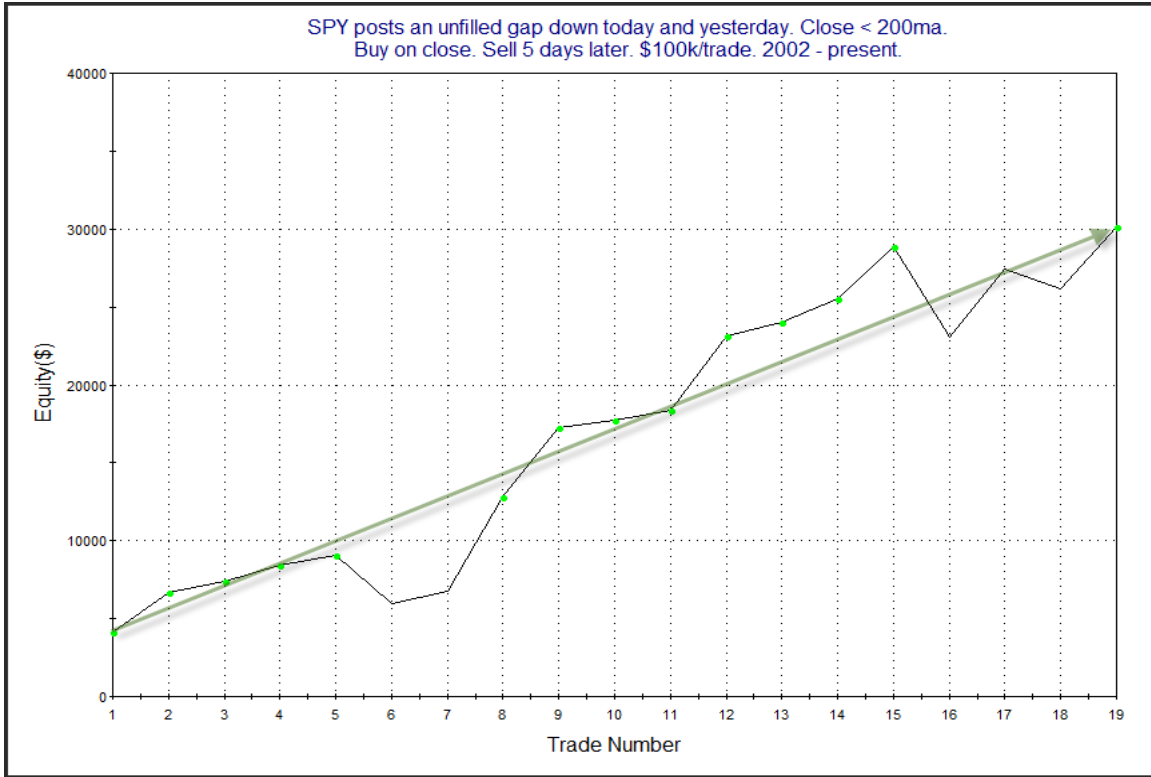
The Evidence

Thursday started with a large gap down, but a large reversal left the indices mixed at the close. The SPX finished down 0.15%, the NASDAQ rose 0.4%, and the Russell 2000 dropped 0.2%. Breadth was negative as the NYSE Up Issues % was 38% and the Up Volume % came in at just 35%. NYSE volume rose from Tuesday's level.

Both Tuesday and Thursday saw SPY leave an unfilled gap down. While 2 unfilled gaps down in a row is fairly unusual, it happened just recently as well. In the 11/21/18 letter I looked at times SPY gapped down 2 days in a row and below the 200ma. I have updated that research below.

SPY posts an unfilled gap down today and yesterday. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 2002 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	30,139.26	19	16	3	84.21	2,520.93	6,103.89	-3,398.56	-5,855.50	0.74	3.96	1,586.28
4	23,414.82	20	13	7	65.00	2,774.66	6,941.43	-1,807.96	-4,811.80	1.53	2.85	1,170.74
3	20,088.79	20	12	8	60.00	2,431.47	5,888.16	-1,136.10	-2,474.50	2.14	3.21	1,004.44
2	14,552.21	21	10	11	47.62	2,866.77	5,091.84	-1,283.23	-5,231.80	2.23	2.03	692.96
1	6,614.53	25	14	11	56.00	1,235.42	2,818.20	-971.03	-4,080.40	1.27	1.62	264.58
95% of instances closed above the entry price at some point in the next week.												

The numbers are compelling. Here is the profit curve.



As you would expect with such a high percentage of winners, the curve looks strong too.

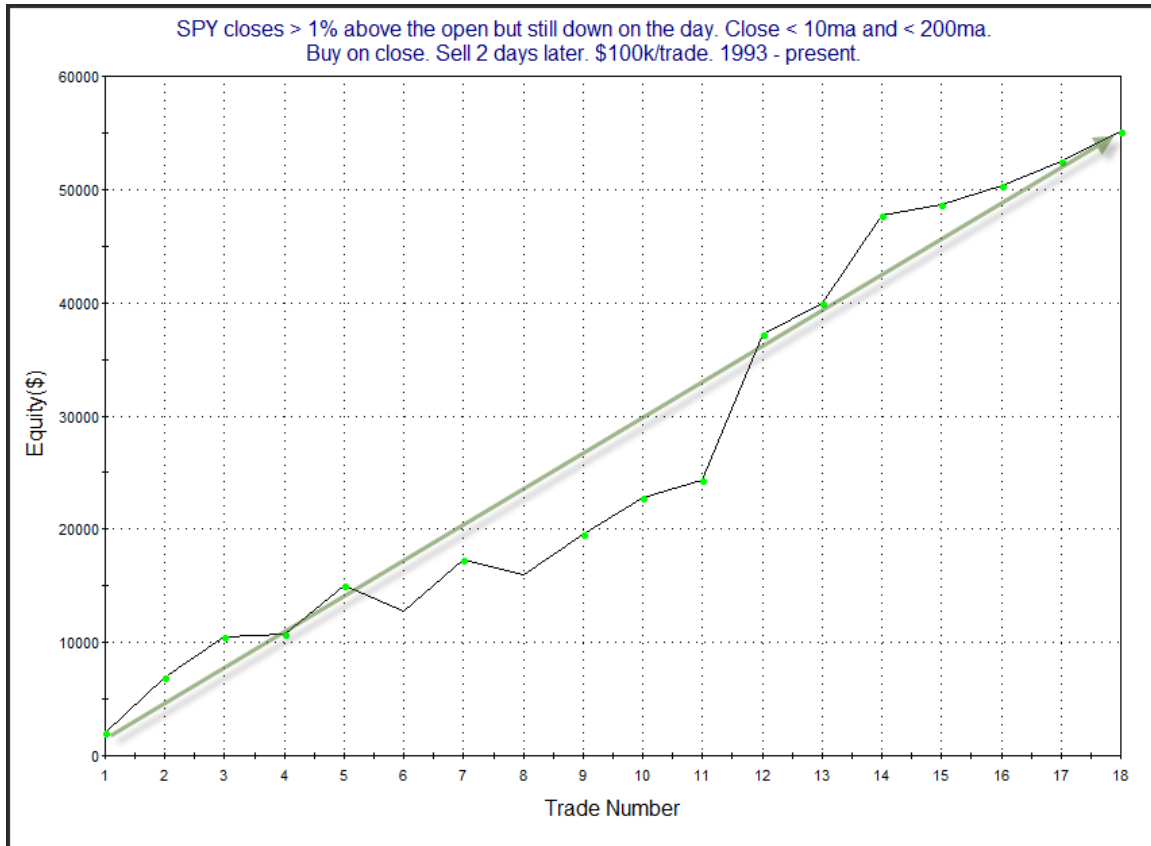
It is also notable that the gap down was large. Another study that caught my eye tonight considered the sizable gap and partial reversal of that gap. It examined times when SPY rose over 1% from open to close but still finished down on the day and below the 10ma. It was last seen in the 8/25/15 letter and has been updated below.

SPY closes > 1% above the open but still down on the day. Close < 10ma and < 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	42,760.91	15	10	5	66.67	5,570.28	12,037.05	-2,588.38	-4,065.60	2.15	4.30	2,850.73
9	47,489.20	15	13	2	86.67	3,910.21	10,391.40	-1,671.76	-2,059.71	2.34	15.20	3,165.95
8	52,422.51	15	12	3	80.00	4,859.65	10,774.35	-1,964.43	-3,155.60	2.47	9.90	3,494.83
7	64,589.05	15	13	2	86.67	5,203.94	15,348.76	-1,531.09	-2,787.78	3.40	22.09	4,305.94
6	60,475.30	15	14	1	93.33	4,494.16	11,639.99	-2,442.90	-2,442.90	1.84	25.76	4,031.69
5	47,725.91	17	13	4	76.47	4,750.40	11,238.92	-3,507.33	-6,614.24	1.35	4.40	2,807.41
4	46,415.50	18	13	5	72.22	4,381.67	10,630.48	-2,109.23	-6,725.16	2.08	5.40	2,578.64
3	32,394.28	18	13	5	72.22	3,313.50	6,933.92	-2,136.24	-5,355.22	1.55	4.03	1,799.68
2	55,129.17	18	16	2	88.89	3,669.68	12,814.15	-1,792.88	-2,251.30	2.05	16.37	3,062.73
1	43,555.15	18	15	3	83.33	3,236.24	14,507.65	-1,662.79	-3,547.32	1.95	9.73	2,419.73

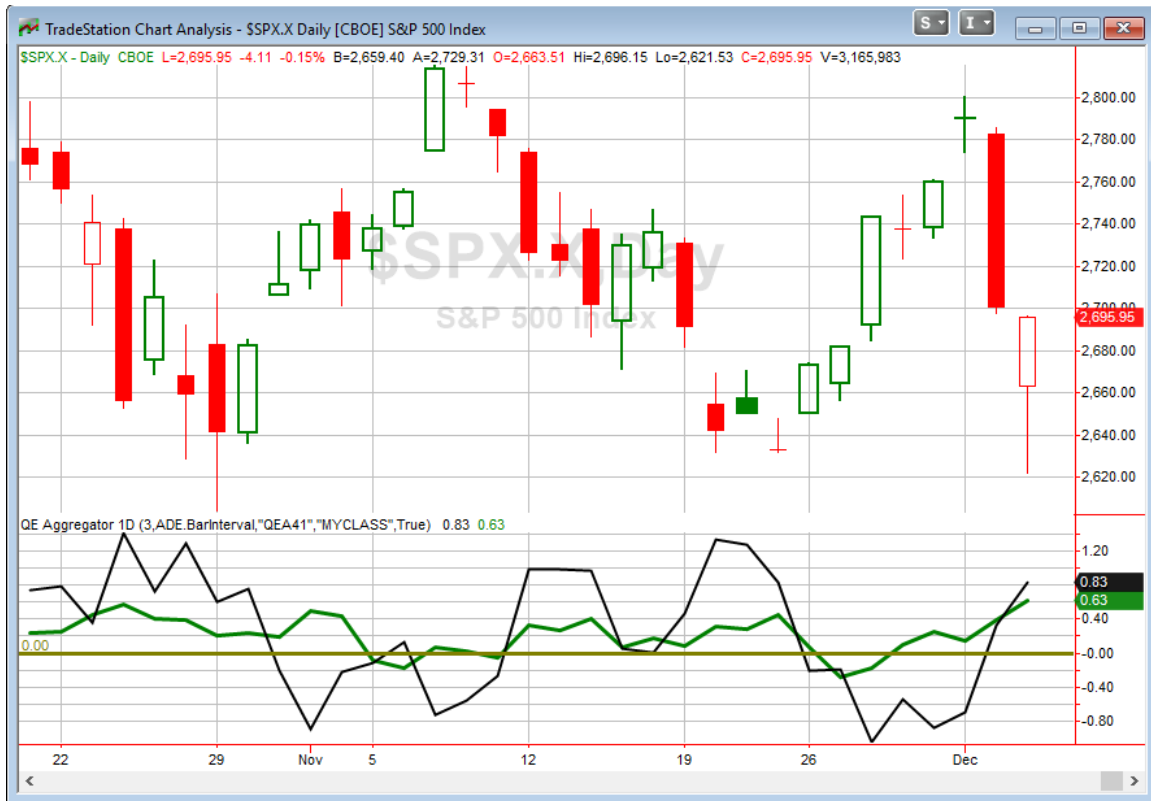
The only instance that went more than 4 days before closing above the entry price triggered on 9/17/2001. That was the day the market re-opened after the 9/11/2001 attacks.

Here again we see very strong numbers on a somewhat small sample size. Below is a profit curve showing a 2-day holding period.



The strong steady upslope shows the gains were not due to just a few outliers. I have included both of these studies on the Active List tonight.

I have updated [the Aggregator chart](#) below.



With tonight's evidence considered the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line also held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

With the current active studies, expectations are slated to remain bullish on Friday. This could change if strongly compelling new bearish evidence emerges. The Differential Pivot will be 2801.02 on Friday. That is a whopping 3.9% above Thursday's close, and it is unlikely we will see a rally that large on Friday. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

The Aggregator is bullish. Evidence is quite a bit more compelling tonight. And there is a ton of room to the upside before SPX would turn overbought. So reward/risk appears favorable. But with the environment highly volatile and the intermediate-term uncertain, I am not inclined to make big bets. I will dip my toe in with a small index position on Friday if I can get a favorable entry.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/3– neutral

The intermediate-term outlook was last updated in the 12/3/18 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

OpenCatapult Triggers

None

Broad Market Large Cap CBI – 0

Additional New Trade Ideas

A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

SPY – Buy ¼ index position @ \$269.84 LIMIT. Base on the short-term outlook above, I will look to take on a small SPY position if I can get filled at Thursday’s close or better.

Current Open Trade Ideas

None currently

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#).

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